Identifying the Risks of Health Center Lending

Dave Kleiber, Capital Link

June 3, 2015

GoToWebinar

CDFI Fund’s Capacity Building Initiative

• The Capacity Building Initiative will greatly expand technical assistance and training opportunities for Community Development Financial Institutions (CDFIs) nationwide and significantly boost the ability of CDFIs to deliver financial products and services to underserved communities.

• Industry-wide training will target key issues currently affecting CDFIs and the communities they serve.
CDFI Fund’s Capacity Building Initiative: Financing Community Health Centers

- **Goal**: Build the capacity of CDFIs to successfully finance and provide services to community health centers in underserved communities.

- **Focus**: Health care sector trends, underwriting, program designs for lending to CHCs, and other relevant subjects.

- **Approach**: Advanced forum, six trainings, five affinity groups, one-to-one technical assistance, webinars, virtual resource bank.

**Presenter**

Dave Kleiber, Project Consultant
dkleiber@caplink.org
(360) 312-0481
www.caplink.org
Agenda

• CL Financial Perspectives Issue 6 methodology
• Brief review of national financial and operational trends of the health center sector
• Key factors leading to FQHC financial distress
• Results of CDFI Lenders’ Survey
• Q&A/Discussion

Issue 5&6 - Methodology

• Capital Link took two approaches to identify health centers that had failed or were currently at risk of failing:
  1. We reviewed the complete set of annual health center UDS reports from HRSA from 2000-2012 looking for those that abruptly stopped submitting
  2. We also added in health centers known to be experiencing serious financial difficulties - these efforts initially identified 85 health centers.
• We cross-referenced that list with our database of audits with the last year that the UDS was submitted considered to be Year 0.
• Then deleted:
  – Any health center for which at least three years of data was not available;
  – Centers that appeared from the audits or web-based searches to have merged with another organization for strategic reasons other than purely financial concerns;
  – Those that appeared to have failed suddenly (possibly from fraud).
• We identified a ‘clean’ list of 29 centers — and then compared this group using UDS and audited data against a like-sized control group for each of those potential 4 year periods. As a result, a total of approximately 800 health centers were used in one or more control groups.
Issue 5&6 - Methodology

• Capital Link also conducted a survey of the 16 CDFI members of the Lenders Coalition for Community Health Centers, based on the members’ actual lending history to health centers.

• The survey asked for details about the number, size, terms and performance of the portfolio of loans made to health centers since 2004. A second part of the survey asked similar questions about any specific health center loans that had been delinquent at any time for more than 60 days, put on non-accrual status and/or had been written-off.

• This section also inquired about the reasons for the poor loan performance from the perspective of the lender. The results were tabulated and analyzed to determine the incidence of problem loans, defaults and loan losses for this group of active lenders to health centers.

To Identify Strengths – Look for Weaknesses

Of the more than 1,280 organizations that have ever been free-standing federally-funded health centers (Section 330 grantees) from 2000 – 2012, fewer than 7% apparently failed or merged with another entity.

We can learn from the experience of troubled health centers—to help you better understand the warning signs of weak performance and by corollary, what is necessary to succeed.
Key Findings Issues 5&6

- **Health Center Size:** The centers in the test group were uniformly smaller than their control group counterparts when measured by Patients, Visits, FTEs and Revenues.

- **Payer Mix:** Surprisingly, the test centers did not demonstrate a significantly higher percentage of uninsured patients than the control group. Test centers did see proportionally fewer Medicaid patients than their more successful counterparts.

- **Collections/Allowances:** One clear conclusion from this study that points to a management-related function is the relatively poor performance of the test centers’ accounts receivable collections efforts—and the resulting higher levels of Allowances.

Key Findings Issues 5&6

- **Productivity:** Under the Fee-For-Service reimbursement system that currently predominates across the country, lower productivity translates into lower revenue and all of the test centers reported significantly lower levels of physician and mid-level productivity compared to the control group.

- **Low Levels of Default and Loan Loss for the Sector as a Whole:** Based on a survey of 16 Community Development Financial Institutions (CDFIs) that are active lenders to health centers, health centers appear to present remarkably low portfolio risk to lenders.
Size of the Industry

![Graph showing the size of the industry over years.](Image)

Patients by Income (% of FPL) - National

![Bar chart showing patients by income.](Image)
National Payer Mix - %

- Private Insurance
- Public Insurance
- Medicare
- Medicaid
- none/uninsured

National Change in FTEs vs. Total Visits

- % Change in Health Center FTEs
- % Change in Visits
Patient Growth Rate

HC Cluster Grants as a % of Sliding Fee Discounts
Results of the Study:
Centers Under Financial Stress

Total Operating Revenue

- Test (75%)
- Control (75%)
- Test (Median)
- Control (Median)
- Test (25%)
- Control (25%)
Bottom Line Margins

<table>
<thead>
<tr>
<th>Year</th>
<th>Test (75%)</th>
<th>Control (75%)</th>
<th>Test (Median)</th>
<th>Control (Median)</th>
<th>Test (25%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-3</td>
<td>9%</td>
<td>6%</td>
<td>3%</td>
<td>0.1%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>-2</td>
<td>9%</td>
<td>6%</td>
<td>3%</td>
<td>0.2%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>-1</td>
<td>9%</td>
<td>6%</td>
<td>3%</td>
<td>0%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>0</td>
<td>10%</td>
<td>4%</td>
<td>4%</td>
<td>0.4%</td>
<td>-8.4%</td>
</tr>
</tbody>
</table>

Employment Related Expenses as a % of Operating Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Test (75%)</th>
<th>Control (75%)</th>
<th>Test (Median)</th>
<th>Control (Median)</th>
<th>Test (25%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-3</td>
<td>77%</td>
<td>72%</td>
<td>70%</td>
<td>64.7%</td>
<td>63.7%</td>
</tr>
<tr>
<td>-2</td>
<td>77%</td>
<td>71%</td>
<td>69.5%</td>
<td>66.2%</td>
<td>63.9%</td>
</tr>
<tr>
<td>-1</td>
<td>77%</td>
<td>72%</td>
<td>66.8%</td>
<td>66%</td>
<td>63.0%</td>
</tr>
<tr>
<td>0</td>
<td>78%</td>
<td>74%</td>
<td>69.5%</td>
<td>66%</td>
<td>63.6%</td>
</tr>
</tbody>
</table>
Why would you expect FQHC’s to experience financial distress?

- Loss of Market Share - Declining patient/visit count
- High uninsured rate
- Sicker patients
- High overhead
- Low provider productivity
- Difficulty in keeping providers
- High % of patients require care in a language other than English
- Overly leveraged
- High cost per patient

....let’s test these.....

Total Patients
(Declining Patient/Visit Count)
Patient Income = <100% of FPL
(High Uninsured Rate)

Year -3 -2 -1

Patient Income = <200% of FPL
(High Uninsured Rate)

Year -3 -2 -1 0
Diabetes Diagnoses as a % of All Medical Patients (Sicker Patients)

Hypertension Diagnoses as % of All Medical Patients (Sicker Patients)
Medical Support Staff Per Medical Provider
(Low Provider Productivity)

Percentage of Patients Best Served in a Language other than English
(High Translation Requirement)
**Leverage**

(Leverage)

![Chart showing Leverage for Test and Control groups with different quartiles and median values.](chart1)

**Cost Per Patient**

(High Patient Cost)

![Chart showing Cost Per Patient for Test and Control groups with different quartiles and median values.](chart2)
What else should we be looking for?

- **Unfavorable Revenue Mix:**
  - Over-reliance on grant/contract income
  - 330 grant too small to cover sliding fee discounts
  - Limited Other Operating Revenue

- **Unfavorable Payer Mix**
  - Low Medicaid % / Medicare %

- **Poor Collections Experience**
  - High contractual allowances and/or Bad Debt expense

### Net Patient Services Revenue (NPSR) as a Percentage of All Revenue
(Over-reliance on grant/contract income)

![Chart showing NPSR as a percentage of All Revenue over time](chart.png)
Grant and Contract Revenue as Percentage of Total Revenue
(Over-reliance on grant/contract income)

Federal Capital Grants as a % of All GCR
(Over-reliance on grant/contract income)
State & Local Grants as a % of All GCR (Over-reliance on grant/contract income)

Foundation/Private Grants as a % All GCR (Over-reliance on grant/contract income)
330 Grants as a % of All GCR
(330 grant too small to cover sliding fee discounts)

Other Operating Revenue (OOR) as a % of Total Operating Revenue
(Limited Other Operating Revenue)
Patient Mix – Medicaid
(Unfavorable Payer Mix)

Payer Mix – Private Insurance
(Unfavorable Payer Mix)
Bad Debt Write-offs as a % of Total Self Pay Charges (Poor Collections Experience)

Year -3 -2 -1 0
Test (75%) 24% 26% 14% 14%
Control (75%) 14% 13% 14% 13%
Test (Median) 7% 6% 6% 7%
Control (Median) 7% 6% 6% 7%
Test (25%) 3% 2% 3% 3%
Control (25%) 1.2% 1.2% 1.2% 1.2%

Medicaid Collections as a % of Total Collections (Poor Collections Experience)

Year -3 -2 -1 0
Test (75%) 73% 75% 74% 79%
Control (75%) 75% 69% 74% 79%
Test (Median) 60% 59% 60% 61%
Control (Median) 51% 47% 51% 51%
Test (25%) 42% 45% 43% 42%
Control (25%) 35% 32% 32% 35%
Medicaid Allowances as a % of Total Medicaid Charges (Poor Collections Experience)

Private Insurance (PI) Allowances as % of Total PI Charges (Poor Collections Experience)
Caught in the Trap:  
PPS Rate and Medicare Cost Report

• Not all centers get the same Prospective Payment System Rate - not even in the same state.

• The initial rate is established at time they are approved as an FQHC.

• Diligent cost controls can result in an inability to justify a high PPS rate – trapping the center into an inadequate reimbursement scheme that constrains growth.

• The PPS rate can only be increased through a series of base grant adjustments (usually small) and/or scope changes.

CDFI Lenders’ Survey Results
CDFI – FQHC Lending Survey Results

Loan Activity

Number of Loans Closed: 439
Number of Loans Currently Outstanding: 184

Total Amount of Loans

Total Amount of Loans Closed: $587,832,368
Total Current Outstanding Principle Balance: $421,637,502

CDFI FUND COMMUNITY BUILDING INITIATIVE

Provided by OPPORTUNITYFINANCE NETWORK
CDFI – FQHC Lending Survey Results

Loans By Purpose

- 89%
- 8%
- 3%

Average Loan Size

- $-500,000
- $1,000,000
- $1,500,000
- $2,000,000
- $2,500,000
- $3,000,000

Average Size of R/E Loan

Average Size Working Capital Loan

Average Size Equipment Loan
CDFI – FQHC Lending Survey Results

FQHC Loan Performance

Looking Forward….

The business model that health centers work under is complex and the current challenges they face are complicated by:

- Large and persistent federal deficits;
- A contentious and rapidly evolving health care environment;
- Changing reimbursement systems;
- Growing income disparity in the country that further economically isolates the low-income populations health centers serve;
- Increasing expectations as to the number of patients health centers will serve;
- A shortage of primary care providers to service a growing number of patients;
- Pressure to integrate mental health and substance abuse;
- The need (and high expectations) for improved health outcomes, especially among the high-utilizers of safety net services.
Questions?

Financing Community Health Centers Webinar Series

Upcoming topics include:

- Leveraging HRSA Capital Grants through a NMTC Structure
  - Monday, June 8, 2015 at 2pm ET
- Navigating Online CHC Data Resources for Market Needs Assessment
  - Thursday, June 18, 2015 at 2pm ET
- Changing Revenue Landscapes for CHCs
  - Tuesday, June 23, 2015 at 2pm ET
- Updated Financial and Operating Metrics and Trends
  - Tuesday, July 7, 2015 at 2pm ET

Upcoming webinar registration and webinar recordings can be found at: The CDFI Fund’s Virtual Resource Bank.
CDFI Fund’s Virtual Resource Bank

Financing Community Health Centers
The resources for this topic can be found below. To view all of our available Resource Banks, click here.

I. Training Curriculum
- Trends in Health Care and the Role of CHCs in Low-Income Communities
- Defining the CHC Landscape
- Primary Credit Needs of CHCs and Sources of Credit
- CHC Financial and Operational Metrics and Trends
- Underwriting CHCs
- Development Services and Partnerships

II. Training Webinars (Coming Soon)

III. Additional Resources
- Overview of CHCs
- Economic Development Benefits of CHCs
- Regional and State-Based Resources for CHCs

OFN Contact Information

• Pam Porter  
  Executive Vice President, Strategic Consulting  
  Opportunity Finance Network  
  pporter@ofn.org  
  215-320-4303  

• Alexandra Jaskula  
  Senior Associate, Strategic Consulting  
  Opportunity Finance Network  
  ajaskula@ofn.org  
  215-320-4325